

TOKYO GAZETTE

A MONTHLY REPORT OF CURRENT POLICIES,
OFFICIAL STATEMENTS AND STATISTICS

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The material in the TOKYO GAZETTE is selected mainly from the *Weekly Report*, the supplement to the *Official Gazette*. The accuracy and comprehensiveness of data presented in the *Report* is fully established. For the benefit of students of Japanese affairs, the TOKYO GAZETTE is endeavouring to maintain these qualities in the hope that its publication will eliminate unfortunate misunderstandings and thus contribute to world peace and international goodwill.

ON ECONOMIC AND FINANCIAL POLICIES

DEPARTMENT OF FINANCE

THE great need for taking various urgent measures in order to promote national development in accordance with the spirit on which the Empire was founded is felt very keenly in Japan today.

Putting these measures into effect obviously requires a vast amount of materials and funds, while the need for skilful technique and supply of labour should not be ignored. Yet since both technique and labour are dependent upon an abundant supply of materials, it becomes apparent that making this supply adequate is the primary necessity in dealing with the present situation. Thus an enigma is created, toward the solving of which the best efforts of economic and financial authorities are being directed : without an adequate supply of materials and funds, no essential progress can be made for the nation as a whole ; yet the continued increase in imports (a marked tendency during 1937) will make difficult the balance of international payments, which unless checked, will undoubtedly retard national progress substantially.

Under these circumstances what line of policy should be adopted in economic and financial affairs ? It must be one which, conditioned by present circumstances, will mobilize all available measures for augmenting and maintaining the economic strength of the country.

The Japanese Government holds the belief that all such plans must be coordinated into a whole, and be centred in the following three points :

1. *To establish concrete measures for augmenting productive power.*
2. *To establish measures for the maintenance of a balance in international payments.*
3. *To establish measures for estimating and adjusting supply and demand in materials.*

The steps decided upon at a Cabinet meeting, just after the formation of the Cabinet, in regard to the development and strengthening of productivity within the country are in accordance with these basic principles. Hence this article will be devoted to explanations of these three points.

Augmentation of Productive Power

It has already been noted that enormous quantities of commodities are called for in order to carry out measures for strengthening of national defence and improvement of the economic life of the nation, and that the matter of prime importance in this connection is increase in the supply of materials. For these purposes, however, either the production of commodities must be increased, or they must be imported from other parts of the world. In other words, the essential step is to cultivate importing capacity by improving the balance of international payments on the one hand, and to enlarge and strengthen national productivity on the other. But, of course, to augment productive power more materials and funds are needed. It follows, therefore, that, in a country such as Japan where the supply of both materials and funds is far from abundant, it is not only unwise but impossible to proceed at random with augmentative activities. Accordingly, the basic course to pursue is to work out plans for using materials and funds economically and efficiently, eliminating wastefulness and overlapping. Herein lies the ground for the emphasis by the Government on definite and concrete measures for promoting production. If, however, such measures are undertaken without a carefully worked out programme, a breaking of the balance of international payments will result, through the increase of imports of materials to be used for these specific purposes together with that of imports of materials directly needed for enforcing other urgent measures.

The important question, therefore, is to what extent and by what methods the production of what classes of commodities should be expanded. Here again we may take our three points as approaches to the question. The first point can be summarized as planning for self-sufficiency in the supply of materials in time of emergency; the second as increasing production of commodities which are insufficient even in time of peace; the third as increasing production of commodities effective in improving the balance of international payments. The selection of commodities to be augmented through production, on the basis of these three points is being sought; and plans for definite and concrete expansive measures in consideration of the scale, rate of progress, and methods in regard, not merely to equipment, but to other factors of production such as raw materials, labour, and technique, are being established. In this planning, the allotment of work between Japan and Manchoukuo as well as between Japan proper and overseas territories must also be given consideration.

The term "to augment productive power" is to be specially noted

in this connection. Its importance is more positive than negative, and its positive aspect alone is generally stressed. Its negative aspect, however, of eliminating waste in distributing productive power to industries other than those classed as urgent under present circumstances, should be taken into consideration, for the effective working out of augmentative measures such as have been outlined. All these questions will be studied by the Department of Commerce and Industry, and other Departments in charge of industries, in association with the Board of Planning, with a view to developing the most efficient measures.

Balancing International Payments

The necessity for establishing measures designed to maintain the balance of Japan's payments will be appreciated when the vital necessity for maintenance of the present level of exchange rates, in relation to the execution of national policies and the safeguarding of the economic life of the nation is understood. The present trade situation has shown an extremely unfavourable trend, with the excess of imports amounting to 640,000,000 yen for the first half of 1937, an excess which represents more than twice the amount for the corresponding period of the preceding year.

This trend will remain accentuated for some time as various measures for defence and economic welfare are carried out. The bearing of expansive measures, with their demand for materials from abroad, upon the temporary increase of imports, has already been explained. At any rate, not until the expansion of productive power is completed and the scope of self-sufficiency in the supply of commodities has been widened, will the adverse movement in our trade be checked of its own accord. It follows, therefore, that without considerable efforts to check it, the balance of Japan's payments will be lost, and her exchange rate will tend to fall.

The present trade situation differs from that of the 1933-34 period when there was a marked increase in exports due to the lowering of exchange rates ; and accordingly, the same kind of outward movement is not to be expected. On the contrary, materials having national significance need to be imported regardless of price, to a certain extent. The expectation of decreases in imports on the ground of unprofitability through lower exchange rates will simply be nullified. Moreover, since our overseas payments, in respect to the principal and interest of loans in foreign currency, have already amounted to a fairly large sum, their burden will greatly increase with the fall of our exchange rates. In the present state of affairs, therefore, it is eminent-

ly clear that, once the downward process commences, with the fall of exchange rates, an internal rise in commodity prices will follow, and through the interaction of these two factors of exchange rates and prices, the situation will increasingly be aggravated, resulting inevitably in rendering impossible the realization of defence and welfare measures worked out with painstaking care. Thus considerable uncertainty will be created.

The Government is determined to maintain the present level of exchange rates by all means. Accordingly, shipments of gold to supplement Japan's overseas funds have been made since March, and will be continued in the future up to a certain amount according to the circumstances. There is, needless to say, a limit beyond which gold cannot consistently be shipped. Merely to continue to resort to this measure without adopting other basic measures for balancing international payments, will only defeat its own purposes, as it will seriously affect the economic world when that limit is reached.

At all events the vital importance of balancing international payments cannot be emphasized too strongly. It is imperative to plan for and establish definite and concrete measures in order to meet this exigency. Endeavours along this line, however, should not be exclusively concentrated on the negative aspect of bringing about a decrease in imports by economizing in consumption, since this is not at all in keeping with the general policies of expansion. The positive aspect of developing the capacity for imports, which is simultaneously the means of facilitating necessary national measures, must likewise be given attention.

The view that the sudden advance in prices from the end of 1936 was caused by the expansion of public finance is prevalent in certain quarters; but the expansion of finance does not bear directly upon price movement. The process is indirect, while the relations of international payments constitute an important intermediary factor. In other words, the expansion of finance and the increase in demand for commodities would not affect internal prices except through an external price movement, in case commodities could be imported without difficulty. In case, however, the capacity for imports is small on account of meeting international payments, the internal advance of prices, caused by an actual scarcity in supply and speculative manipulation, would be only too serious. Viewed in the light of these relationships, the maintenance of the balance of international payments has not only a negative but a positive significance. It comprises essentially such endeavours as the increasing of income from foreign trade by promoting exports and the augmenting of the gold production capacity; and, on the other hand, the restraining of im-

ports of commodities not urgently needed for national purposes and those which can be economized on, so as to apply the surplus purchasing power to importation of commodities entitled to priority from the broad viewpoint of the nation as a whole, and from the all-inclusive viewpoints of governmental and private policies. The imposition of restrictions upon imports, though advisable to a certain extent and under certain circumstances as an effective financial measure, is to be avoided as far as possible because of its unfavourable effect upon the standard of living. When, however, it is to be imposed, it should be done with adequate consideration and planning in regard to the necessities of life and raw materials for subsequent exports. In particular, the possible effect of such restriction and the measures for adjusting demands and consumption of commodities should be given serious consideration. The simple and reckless method of restriction by means of exchange control and like measures should be discouraged.

Estimation and Adjustment of Supply and Demand

In this exposition of economic and financial policies, we have now come to the last of the three basic points. Measures for defence and economic welfare, as have been repeatedly explained, unavoidably cause the increase in demand for commodities. Unless, therefore, demand is adequately regulated, an upward price movement will set in, not only obstructing the execution of necessary measures but creating a general state of uncertainty. In this connection, it is hardly necessary to dwell upon the fact that this state of affairs will also react in the direction of increasing imports and of affecting international payments unfavourably. Consequently the estimation and regulation of supply and demand to ensure the supplying of the necessary commodities to the necessary places becomes a matter of immediate necessity.

In carrying out this measure, our primary objective should be to try to adjust this vital relationship of supply and demand, not by negatively restricting demand, but by positively planning for the increase of supply through the means of expanding both productive and importing capacity. In all these attempts, we repeat, their bearing upon the balance of international payments must constantly be watched, together with the question of priority in importance and urgency in respect to the demand for commodities. Accordingly, the question of economizing consumption and encouraging the use of substitute commodities might also be included in our consideration of this, the last of the basic points.

Nature and Inter-relation of the Three Basic Principles

This study of the three basic principles has well-nigh been completed. A point further to be clarified, however, is that these three basic principles do not constitute in themselves the objective of our national policies. They are the means of attaining a greater objective towards which Japan is striving. To be more specific, they are the means of carrying out necessary measures for strengthening national defence and advancing the economic welfare of the nation. These three principles, therefore, shall never run counter to the main objective. Nor should the three principles themselves be taken separately. As they constitute a coordinated whole, the failure of one of them will cause the collapse of the whole. True, they contain insignificant parts which may contradict one another; but it is the task of the Government to carry them out as one synthesized whole, overcoming all contradictions. There are not a few persons who hold that the three principles are essentially contradictory. But such a conception is formed through a lack of understanding with regard to the unified nature of the principles in which the positive and negative aspects are to be harmonized perfectly in operation. It must also be remembered that Manchoukuo, which is, in reality, inseparably related to Japan, should be taken into consideration as an integral part of one coherent entity constituted by the two countries. In other words, the three basic principles should be materialized in their relationship not only between themselves but including our allied Empire. In short, a nation such as Japan which is on its way to expansion and development must be prepared to proceed positively with measures essential to national defence and economic welfare by augmenting and maintaining her economic strength in accordance with the aforesaid principles.

To be too eager, however, in executing these measures without paying due attention to basic requirements is only to defeat their own purposes. It is therefore a matter of absolute necessity that the entire nation work as a coordinated whole for the preservation and development of economic strength, by giving full scope to efficiency and by eliminating all possible waste—in other words, by systematically carrying out the three basic principles. Thus, in proportion to the expansion and development of economic strength, can the necessary measures be put into operation; while an impatient rush toward their execution, regardless of the limitations of national strength, will not merely render execution impossible, but also will give rise to evils far worse than those arising out of their neglect. The size and scale of the State budget too will be decided hereafter.

by the extent to which commodities can be supplied both by production and by importation under the most efficient carrying out of the three principles. For that reason, it was agreed at a recent meeting of the Cabinet in connection with budget estimates for 1938 and future fiscal years, that the Government do its best toward estimating supply and demand, in collaboration with private institutions functioning along the same lines, and that all Governmental Departments make special efforts for augmenting economic strength with a view to realizing as many national policies as possible.

Cooperation of the Entire Nation Needed

The Government is fully prepared to meet all economic and financial problems, adhering to the line of policy described in these pages. This constitutes an entirely new approach to these problems, and involves difficulties of no small extent. It is, however, the only course for Japan to adopt in the field of economic affairs, in order triumphantly to guide her destiny through the present crisis. It is a matter of necessity, and we are called upon to go ahead. Of vital importance, in this connection, is the cooperation of the entire nation. In the field of economic activities, forcible control by the Government is by no means the most effective policy. Only through the free, voluntary and original actions of individual citizens can efficient economic policies be operated. With this conviction, the Japanese Government calls upon the entire nation to render its full-hearted cooperation so that these economic and financial policies may be successfully executed.

THE LAW FOR INSURANCE OF FISHING VESSELS

BUREAU OF FISHERIES,
DEPARTMENT OF AGRICULTURE AND FORESTRY

IN the special character of fishing vessels lies the significance of this new legislation. While the purpose of the ordinary vessel is to sail the seas, fishing boats have to engage in fishing activities day and night as well, often following schools of fish in threatening seas and in stormy weather. Their percentage of exposure to peril is far greater than that of other vessels, and the kinds of dangers they face are considerably different in nature. These characteristics logically call for special relief measures to cover disasters at sea. Hence fishery circles have long demanded a special system of insurance on behalf of their vessels.

The Japanese Government, too, has recognized this need, and preparations for the enactment of a suitable law have been made during the past twelve years. At the 70th session of the Imperial Diet, therefore, legislative measures entitled the Law for Insurance of Fishing Vessels, and the Special Account Law Pertaining to the Reinsurance of Fishing Vessels, were introduced and approved. These two significant laws were promulgated on March 31, 1937, whereby the legislation for salvaging, so earnestly sought by fishery interests for more than ten years, was established on a permanent basis. Enforcement of these laws just when the need has been felt acutely for regeneration of fishing communities which have been impoverished because of the desolation of coastal fishing grounds, is regarded as particularly effective, not merely in reviving fishing centres, but also in bringing new life and spirit into fishery activities. Hence a thorough explanation of the necessity for this special type of marine insurance, of the present situation in Japan, and of the essential points of the new legislation, is deemed in order.

Necessity for Insurance

For those engaging in the fishing industry, fishing vessels constitute their only property and their sole means of production. Disasters occurring to their vessels, therefore, destroy at once their livelihood. Not infrequently they take away their lives as well. Apart from the matter of lives, losses suffered by fishermen in the

last ten years have amounted annually to 2,000,000 yen, of which losses incurred by vessels have totalled 1,350,000 yen, those by implements, 570,000 yen, and other losses, 100,000 yen. The record amount was 4,800,000 yen, the losses for the year 1933.

For these losses, however, no adequate relief measures had been in operation, and it has frequently been the case with fishermen that once a ship has been wrecked, they cannot afford to build another vessel to replace it, and to make a new start in life. Accordingly, to establish an insurance system for fishing vessels, by facilitating loans on the security of vessels, and working effectively for the regeneration of fishing communities and promoting the industry, is to satisfy a long-cherished desire of the fishing world.

The Immediate Situation

Of the marine insurance companies, ten are dealing today in insurance for this special type of vessel. Their actual business, however, in this line of insurance is far from flourishing. Its volume occupies only an insignificant part of the entire volume of marine insurance. This is due perhaps to the fact that, as the vessels insured by these companies are of no great value, and as they are scattered all over the country in comparatively small numbers, overhead expenses mount unproportionally high, causing in consequence higher premium rates; and that, on the basis of present business policies, adequate supervision cannot effectively be carried out in order to prevent crooked manipulations.

Under these circumstances, measures most appropriate for redeeming the above defects and for satisfying the desires of fishermen in this respect must embody a cooperative insurance system for their vessels, a system which provides for the operation of mutual insurance. For that reason, this system based on mutual aid has long been developed among fishermen in European countries. Especially has this been true in such countries as Great Britain, Germany, and France. Fortunately, in Japan too, the spirit of neighbourliness and mutual aid has been cultivated through the operations of mutual financing associations for shipbuilding, and it has actually been manifested in the organization of fishery and agricultural cooperative associations. Upon this spirit, therefore, should the guiding principles of the insurance association for fishing vessels be based. The present legislation is the embodiment of that spirit. In this sense, the Law for Insurance of Fishing Vessels can be said to be most appropriate for the life of fishermen and the conditions in their communities; in other words, the Law is founded upon the principles

of the cooperative society, different in objective and principle from the law for insurance of vessels at large.

Construction of the Law

The Law consists of thirty-five articles and is divided into three chapters. Chapter I contains provisions for the insurance association for fishing vessels; Chapter II, provisions for their reinsurance; and Chapter III, provisions for punitive measures. Thus the first two chapters constitute the essential part of the Law.

Further points to be noted in this connection are that in Chapter I the organization of insurance associations which act as underwriters and the by laws for their operation are prescribed, and that in Chapter II the relations between the associations and the Government, in respect to reinsurance, are defined. In regard to reinsurance, its significance lies in that, under the above provisions, the work of the associations is safeguarded and the permanency of this system of insurance ensured. If, on the other hand, fishing vessels are underwritten exclusively by the associations themselves, the risks will be distributed only within narrow circles. Furthermore, when perils arise in forms of storms and tidal waves, concentrated in certain localities, the associations concerned will have to pay for much heavier losses than anticipated. It is therefore essential that the Government should bear the greater part of risks met by the associations, distributing them all over the country.

Organization of Insurance Associations

The insurance associations, in accordance with the present legislation, can be organized for the purpose of insuring their vessels by a group of owners of fishing vessels similarly motivated. In other words, those who desire to utilize this insurance system must join the association as members, and those not holding memberships are not authorized to have their vessels insured with the association. This restriction can be justified on the basis of the guiding principles of the associations which are formed, as has been already explained, upon the spirit of neighbourliness and mutual aid. In an organization such as this the prosperity or decline of the association is immediately reflected to the members, and the actions of the members, in turn, affect the life of the association in the same way. Accordingly, an insurance contract effected by a member acts not only for his own benefit but also for that of other members; that is to say, when a member has his vessel insured, he is actually underwriting the vessels

of other members. As to the procedure of establishing an association, it is required that all preparations be made as prescribed, and that permission of the Ministry of Agriculture and Forestry be obtained before formal establishment.

The association thus established has the legal status of a corporate, judicial person. Since, however, the association is intended not for the general welfare of society so much as for the mutual benefit of its members, it is not a judicial entity for public benefit. Again the association is not a judicial entity for profit-making purposes, since it is not operated for profit as in the case of the insurance company. The nature of the association, therefore, can be defined as a so-called neutral judicial person.

Classes of Insurance Associations

The types of vessels eligible for this system of insurance include, in principle, vessels with engines of several hundred gross tons and downwards, including such small boats as scullers. Even in exceptional cases vessels of several thousand gross tons will be the maximum in size.

It is in keeping with the best insurance policies that those having approximately the same percentage of risk should be grouped together for mutual insurance. For instance, trawlers and vessels for bonito and tunny fishing may well be organized into two separate associations. The association thus organized by grouping vessels of like types is called the Special Insurance Association for Fishing Vessels. The organization of vessels engaged in various types of fishing into such special associations is to be supervised by the Ministry of Agriculture and Forestry.

Vessels engaging in types of fisheries other than those designated will be organized into local associations by grouping them according to their localities. The organization thus formed is called the Ordinary Insurance Association for Fishing Vessels, as contrasted with the special association.

All the insurance associations formed under the Law shall be either of the two classes, an association in the special class is not allowed to compete with another association of the same class, while an association of the ordinary type is not allowed so to act within its own district. Such a precautionary measure is most fitting in order to eliminate any causes mutually detrimental to the operation of the associations, which may arise from unnecessary competition.

The operating district of the special association, by nature of its type of insurance, extends usually over several prefectures. The

size of the district, however, of the ordinary association cannot be definitely defined, since conditions of distribution of fishing vessels vary according to localities. The grounds for decision must take into consideration two contradictory factors : from the standpoint of business operation, it is advantageous to have a wide operating district in order to have more contracts ; from the standpoint of preventing irregular transactions necessitating mutual watching of members, it is disadvantageous to extend the size of the district. Accordingly some plan will be found practicable in which each prefecture will have three to five associations.

Nature of Insurance

The insurance of fishing vessels, according to this Law, comprises a system of mutual insurance effected by guaranteeing, on the part of the insurance association for fishing vessels, to recover losses arising from destruction, sinking, damage, or other detriment to vessels owned by members of the said association ; and, on the part of the said members, to pay the necessary premiums. This system of insurance, as viewed externally, is none other than that of making a contract of insurance with the association by a member on the vessels in his possession , but, as viewed essentially, the contract is made by one of the members with the whole group made up of the others, as the association is acting only for that group. In this case, the association is not underwriting as a business institution. The profits or losses, apparently of the association, are, in reality, not those of the association itself but of the whole of the members. If we make a further study of the contents of the Law, we find that provisions have been made for the collection of additional premium in case of deficiency of funds to meet the demand for insurance money, and, in certain cases, for reducing the insurance principal to tide over an emergency. The Law also stipulates that, in case the operation of the association is so successful that a surplus accrues, the latter may be divided among the members. These provisions demonstrate the fact that the association is not essentially one who underwrites, in its insurance relation to its members. Therefore, the contract of insurance made with the association by one of its members is not, in reality, a contract with the association but with the whole membership. In consequence, a member of the association is in the double status of being at once the insured and the insurer. In this sense it is again obvious that this system of insurance of fishing vessels is of the so-called mutual insurance type, belonging to a neighbourly and mutual aid system, related to the cooperative society.

Premium Rates; Amount and Period of Insurance

Of all the questions pertaining to this insurance system, the most discussed is that of premiums. In trying to establish this system through the enactment of the present legislation, what is aimed at by the Government is not merely to make easier the terms upon which the insurance money is paid, to the advantage of members, but to fix the premium rates as low as possible so as not to place too heavy a burden on those engaging in fishing, and at the same time to safeguard the existence of the association.

For the period of eight years, ending September, 1935, the Government had made a comprehensive survey of 15,000 fishing vessels in 108 principal centres, and had tabulated the data, with a view to finding out the percentage of risk according to maritime districts, of which there are nine, and to prefectures ; to the classes of vessels in terms of power, make, age, and tonnage , and to the kind of fisheries. From the respective percentages of risk thus determined, the values representing their factors of safety have been computed, and the values which constitute the basis of the net premium rates have been ascertained. These net premium rates, in turn, constitute the most important factor for computing finally the standard premium rates to be adopted by the insurance associations under the present legislation ; for the former, together with the supplemental premium rates, form the very basis of the latter, standard rates.

In the operation of the present system of insurance, the matter of greatest concern is how payments of premium will be met by the members. These can be facilitated, it is realized, by keeping the members in close connection with well-established fishery associations, and by having them adopt such methods as laying aside part of the income from their catch in the hands of their sales agents.

With regard to the amount of insurance, this is generally fixed by insurance companies at 70 per cent of the value of the vessels In other words, the companies guarantee 70 per cent of the risk and let the insured bear the remaining 30 per cent of it Accordingly in the case of a vessel valued at 10,000 yen, 3,000 yen represents the loss of the insured. This is the usual practice adopted by insurance companies as a means of eliminating crooked deals, and the present system for fishing vessels too, as a principle, has conformed to this practice. This percentage, however, has never been adopted as the permanent standard : it can be increased beyond 70 per cent, as the members' conception of insurance progresses

The insurance term is generally made for one year, in consideration of an undesirable effect, upon the minds of the members, of a long

term policy, which may develop into excess insurance through the depreciation of the values of vessels. In cases, however, of missing ships, continuation of the state of shipwreck, or other continuing losses, extension of term will be permitted; and in the special case, on the other hand, of old age or other risks, a term of less than one year will be authorized.

Liability of Associations for Losses

When a vessel owned by a member of the association sustains a loss from disaster at sea, the association undertakes to indemnify the member against his loss in accordance with contract stipulations. In the present legislation, relief measures are provided for all losses which may occur in the operation of fishing activities, which losses are described as those caused by "destruction, sinking, damage or otherwise," without limiting them to specific kinds of disasters as the only causes for paying the insurance money. These provisions are made in order to give genuine assistance to fishermen in the operation of their business.

To prevent damages on the eve of their occurrence, or to mitigate them on the point of their being aggravated, are measures rightfully urged by the spirit of this system of insurance. In the present legislation, therefore, such precautionary steps are not only encouraged but made obligatory for members, and it is authorized that expenses incurred in carrying out such measures, regardless of their actual results, be paid to them by the association within the limits prescribed by the ordinance. Furthermore, when a fishing vessel is sunk, is missing, or becomes irreparable, it can be abandoned in accordance with the general practice of marine insurance; and when the member abandons his vessel, the association is to pay the whole of the insurance money as provided in the Law.

The provisions with regard to the insurance of fishing implements are to be specially noted. It is provided that whereas implements can be made subjects of insurance according to needs, they cannot be insured independently. In order to have them insured, the vessels carrying them have to be insured first; this is an absolute prerequisite.

Contracts effected between the associations and their members can be classified according to the kind and degree of indemnity. It is natural that there should be such differences in the nature of contracts, inasmuch as the members' conceptions of insurance differ, and the degree of success in business operation of the associations varies. It is anticipated, therefore, that under the present law the following three classes of contracts will be effected: (1) security

against total loss only; (2) security against partial loss (in this group that of the first class is naturally included); (3) security against partial loss and recovery of damages after collisions. Of these classes the first will be the most popular, while the second and third will be adopted only in proportion to the advancement of the members' understanding of the nature of insurance.

The computation of the amount of loss is the most difficult matter in the payment of insurance money by the association. The creation of an appraisal committee as a subcommittee of the association, or adoption of some other appropriate measure can be considered for this purpose. On the part of the Government, guidance and direction will be given by deciding on the basis for computations.

Reinsurance

The aims of the Government in its reinsurance measure have already been stated. Under the provisions of the Law, the liability of the Government begins at the very time when the liability of the association for the loss of one of its members takes place. In this connection, the question of abandonment should again be noted. Although those who entertain the right to abandon vessels are the members of associations, the reckless acceptance of abandonments on the part of the latter will have considerable effect upon the Government, since the Government is reinsuring 70 per cent of the total amount of insurance accepted by the associations. The associations are therefore placed under obligation to make reports to the Government of the causes of the losses as well as of the causes of abandonments of insured vessels immediately upon occurrence, and to conform to the directions of the Government with regard to the exercise or disposal of all the rights they possess in connection with abandonments. Thus the reversion of the amount of money gained by the exercise or disposal of the aforesaid rights will be ensured in a reasonable way. The method for the associations to bring civil action in matters concerning reinsurance against the Government is also provided in the Law. In this case, matters must be submitted first to the Commission for Reinsurance of Fishing Vessels, which measure is designed to offer an easy way of settling outstanding matters for the protection of the associations themselves.

SIGNIFICANCE OF THE NORTH CHINA PROBLEM

BUREAU OF INFORMATION,
DEPARTMENT OF FOREIGN AFFAIRS

ELSEWHERE in this issue is given the detailed account of the present North China incident, which originated on the night of July 7th with the sudden firing of Chinese soldiers stationed at Wanping-hsien on a small unit of Japanese troops belonging to the North China Garrison, which was engaging in night manoeuvres near Marco Polo Bridge. The fundamental causes which led to the outbreak are to be found far back in the history of Japan's relations with the Nationalist Government and deep in the state of mind long prevailing in China. Thus, in order intelligently to grasp the significance of the North China problem, it is of paramount importance to return, at least, to the conclusion of the Tangku Truce of 1933, and from that point to trace the subsequent developments in relations between the two countries.

From Tangku Truce to Exchange of Ambassadors

These relations were gradually improving during the period of two years from the establishment of the Tangku Truce on May 31, 1933, to the exchange of Ambassadors between Japan and China on May 17, 1935. In China, during that period, General Chuang Kai-shek, who, as Chairman of the National Military Council, was in supreme command of all Chinese forces—land, sea and air—and Mr. Wang Ching-wei, who was directing affairs of State as Chief of the Executive Yuan, collaborated in a double-edged policy of resistance and peace. While acting toward Japan with as little harm and offence as possible, they strove not merely for readjustment of North China affairs, which were in turmoil after the Manchurian incident, but also for the promotion of internal unity within the republic.

The Chinese leader who was directly responsible for solving problems pending between the two countries was General Ho Ying-chun, then Chairman of the Peiping Branch of the Military Council; General Ho's responsibility was subsequently taken by Mr Huang Fu, as Chairman of the Peiping Political Readjustment Committee of the Executive Yuan. Due in part to the efforts of these leaders, what was known as the Peiping Agreement had been reached in November, 1933. This was the first and basic step achieved in

improving affairs in North China in their relations to Japan and Manchoukuo. The agreement, in reality, proved to be the foundation for realizing various plans of cooperation between Manchoukuo and North China in terms of transportation and communications, as well as for solving the outstanding problems between Japan and China. Other major events along the same line are enumerated here.

1. Taking Over of the Great Wall Gates

Beginning in February, 1934, Japanese forces gradually withdrew from the districts coming under the Tangku Truce (see map), to the line of the Great Wall. The administration of this area, covering approximately the territory now under the rule of the East Hopei Autonomous Government, was taken over by Chinese authorities.

2. Railway Connections

The problem of through train service between Peiping and Mukden, which had been suspended since the Manchurian outbreak, was settled through Sino-Japanese talks, the service has been resumed since July 1, 1934.

3. Postal, Telegraphic and Telephonic Communications

The Manchurian incident gave rise to a number of difficult problems relating to the postal service between China and Europe via Manchoukuo, to the considerable disadvantage of the general public. These difficulties, however, were practically eradicated on January 10, 1935, as a result of a joint agreement. Like measures affording practical solutions were followed in respect to the other two services. The only question still pending is that of connections by air.

In view of these circumstances, it was but natural that Japanese relations with China should begin to improve. The most noteworthy event, in this connection, was the speech of Mr Koki Hirota, then Foreign Minister, before the Imperial Diet in January, 1935, in which the speaker acknowledged in a most frank manner that opportunities existed for making moves to break the Sino-Japanese deadlock. This speech of the Foreign Minister apparently had favourable repercussions in the neighbouring republic. On February 1st, General Chiang Kai-shek made public through the Central News Agency an unofficial statement which was in the nature of a response to the aforesaid speech. All Chinese papers of February 2nd published this statement which may be summarized as follows:

Since it can be discerned that the Japanese Foreign Minister spoke from the bottom of his heart, the whole Chinese nation, both governmental leaders and people alike, must try to appreciate all that he meant. Our

Government has taken continual and consistent steps to curb anti-Japanese movements which have arisen in certain quarters of our nation because of stimuli repeatedly received. That both sides should mutually speak and act in good faith in accordance with the principle of equality, is to my mind, the only means for going forward on the road toward a bright future, clearing away clouds of doubt and suspicion. It is highly essential, therefore, for the improvement of relations between the two countries that the anti-Japanese sentiment which, on our part, has been entertained in the past, and the sense of superiority on the part of Japan should be rectified at the same time.

This remarkable expression of a friendly attitude by the Generalissimo was followed by the promulgation of a decree for control of anti-Japanese movements by the Nanking Government, a move which may be accepted as a change in its official attitude towards Japan. The Japanese Government consequently took the lead in assisting China in realizing its long-cherished desire for the exchange of ambassadors. Thus the two countries promoted their respective legations to the status of embassies on May 17th, and Mr. Akira Ariyoshi, then Japanese Minister to China, was appointed the first Ambassador. Great Britain, the United States, Germany, and France (the Soviet Union and Italy already had ambassadors in China) followed Japan's lead, for which the Nationalist Government greatly appreciated her good offices.

The Darkest Period : After the First North China Incident

Extremely regrettable, however, were the successive recurrences of anti-Japanese activities towards the end of that two-year period in which the improvement of the situation had discernibly taken place, as has been described. This turn of the tide can never be too strongly lamented for jeopardizing the peace of East Asia and, in consequence, that of the whole world.

The anti-Japanese sentiment in China has been deep-rooted in the minds of her people as the result of the years of education for that purpose from their childhood; as such, it is not of so simple a nature as to be eradicated by a single decree. This well-nigh inborn sentiment has been utilized by the Nanking Government, which has encouraged it, while paying lip service to the contrary, for the consolidation and extension of its power and influence, especially since the outbreak of the Manchurian incident. It accounts precisely for the successful movement of the Nationalist Government in the direction of internal unity. The eradication, therefore, of anti-Japanese sentiment cannot be expected until the time when the Nanking Government has been so strengthened that it can stand on

its own feet without depending on such artificial forces as the sentiment against Japan. In other words, it appears as though the Nanking Government were essentially inseparable from this disastrous sentiment.

Special attention must now be given to the existence of a secret organization known as the Blue Shirts. Organized in 1932, this society formed a kind of body-guard for General Chiang Kai-shek. Originally it was a nationalistic organization of the extreme right, with visions of establishing a strong national structure orienting around its chief and leader, and with the immediate objective of overthrowing all anti-Chiang regimes and forces. The Blue Shirts, however, gradually acquired a strong anti-Japanese colouring; and since the time when overt acts of an anti-Japanese nature became difficult under the Chiang-Wang regime, they have gone underground, resorting to measures of terrorism for nipping in the bud forces working toward an improvement in Sino-Japanese relations.

On May 2nd and 3rd, 1933, two Chinese proprietors of pro-Japanese newspapers in Tientsin were assassinated in quick succession; and it was found, as the result of thoroughgoing investigations conducted by the Japanese Consulate General in Tientsin, that in both cases the Blue Shirts pulled the wires. These murders constituted what was called the First North China incident. The Japanese authorities on the spot lodged an energetic protest with the Chinese authorities, upon which the latter accepted all demands in full. Accordingly the armies under the direct command of the Central Government and under General Yu Hsueh-chung withdrew from Hopei Province, and anti-Japanese organizations and institutions such as the local branches of the Blue Shirts, the 3rd Corps of the Gendarmerie, and the Political Training Section of the Peiping Branch of the Military Council—both of which were under the control of the Blue Shirts—were ordered either to dissolve or to move out of Hopei Province. These demands and their acceptance, then, really form the basis of the Umezu-Ho Agreement.

No sooner had the first North China incident been settled than another incident occurred. This was known as the Chahar incident in which a Manchoukuoan official of Japanese parentage was shot at Tungchatsu, in Jehol Province, by soldiers of the 29th Army under command of General Sung Che-yuan—the army which caused the present affair. An important result of this incident was that an area adjoining, to the west, the demilitarized zone under the Tangku Truce, was established, having approximately the same status as that zone. At the same time the so-called Doihara-Chin Te-chun Agree-

ment was concluded, under the terms of which an area called the Six Hsiens of North Chahar eventually came into being.

Then the Second North China incident took place. The incident itself was simply that a commanding officer of a corps of Chinese constabulary was shot to death at Langchow station. Incidentally, a Japanese gendarme standing nearby was seriously wounded. Here again, investigation by Japanese authorities revealed that the Blue Shirts were basically responsible.

The facts particularly to be noted here are that acts of anti-Japanese terrorism were not confined to North China but had spread all over the country, and that the nature of the outrages became increasingly malicious and underhanded because of the participation of communistic elements. At the seventh Congress of the Comintern which convened in July of the same year, 1935, Japan was designated as an immediate objective of the coming campaign and new strategy was adopted for this purpose. According to the strategy, the uncompromising attitude toward other organizations of different ideologies, which had characterized communist strategy in the past, was to be completely abandoned; the so-called popular front was to be organized in collaboration with various democratic organizations; and even nationalistic organizations were to be approached and utilized. As had been anticipated, this new strategy bore fruit in China, giving birth to the anti-Japanese popular front movement and stirring up anti-Japanese sentiment in the people all the more, by working upon such a rightist, nationalistic organization as the Blue Shirts.

Another incident, serving as a further illustration of the pertinency of the foregoing analysis of the situation, occurred on November 1, 1935 in Nanking. This was the attempt to assassinate Mr. Wan Ching-wei, who, as chief of the Executive Yuan, had rendered valuable contributions in bettering the Chinese attitude during the previous two years and a half. The attempt was made while he was entering the site of a plenary meeting of the Central Executive and Supervisory Committees of the Nationalist Party. Wan was seriously wounded and had to resign from his important office. This attempt was followed by the assassination of Tang Yu-jen, his right-hand man, who was actually engaging in negotiations with Japanese diplomatic representatives for better relations. Tang was shot to death at his home in the French Concession in Shanghai. These two incidents practically shattered all hopes for improving Sino-Japanese affairs.

Meanwhile, acts of terrorism directed towards Japanese were spreading all over China. The following list includes the major

cases : the Nakayama incident in Shanghai¹; the Swatow incident²; the Kayabu incident in Shanghai³; the Chengtu incident ; the Pakhoi incident ; the Hankow incident⁴; the Tamunato incident in Shanghai⁵; and the Takase incident in Shanghai⁶.

Of these incidents, the Chengtu and the Pakhoi were most characteristic of Communist-Nationalist instigation. A brief account of the Chengtu incident is that on August 24, 1936, four Japanese who happened to be staying in the city—Kozaburo Watanabe, a staff correspondent of the *Osaka Mainichi*; Keiji Fukagawa, a staff correspondent of the *Shangha Mainichi*; Takeo Tanaka, of the Shanghai office of the South Manchuria Railway Company ; and Hisashi Seto, a merchant residing in Hankow—were attacked by an anti-Japanese mob consisting chiefly of students. The incident resulted in the slaughtering like animals of the two men first mentioned, and in the inflicting of serious injuries upon the latter two.

The Pakhoi incident is noteworthy in that Junzo Nakano, a Japanese merchant who had lived at peace among Chinese for more than twenty years and who was married to a Chinese woman, was murdered most ruthlessly by a mob of the same nature. In all these uprisings the wire-pulling of the Third International was evident ; they serve as the most adequate illustration of the nature of activities of the Third International.

The Tungchow incident, which is described in the article, "The Situation in North China," may be regarded as the culmination of this series of terroristic acts. It is, in reality, a disgrace to civilization and to humanity—a disgrace which, in respect to the atrocity and number of victims, has had no precedent in the history of Sino-Japanese relations extending over the past 1,500 years. Thus, this period of the past three years beginning with the first North China incident certainly constitutes the darkest page in Far Eastern history.

North China and Japan

The statement that the principles underlying Japan's policies

¹ On Nov. 9, 1935, Sueo Nakayama, first class seaman of the Japanese Marines in Shanghai, was shot to death.

² On Jan. 21, 1936, a Japanese police officer named Tsunoda was shot to death on the way to the Police Station in the morning.

³ On July 10, 1936, a Japanese merchant residing in Shanghai was shot, he subsequently died from the wound.

⁴ On Sept. 19, 1936, a Japanese police officer named Yoshioka was shot to death in broad daylight while on duty in the neighbourhood of the boundary line of the Japanese Concession.

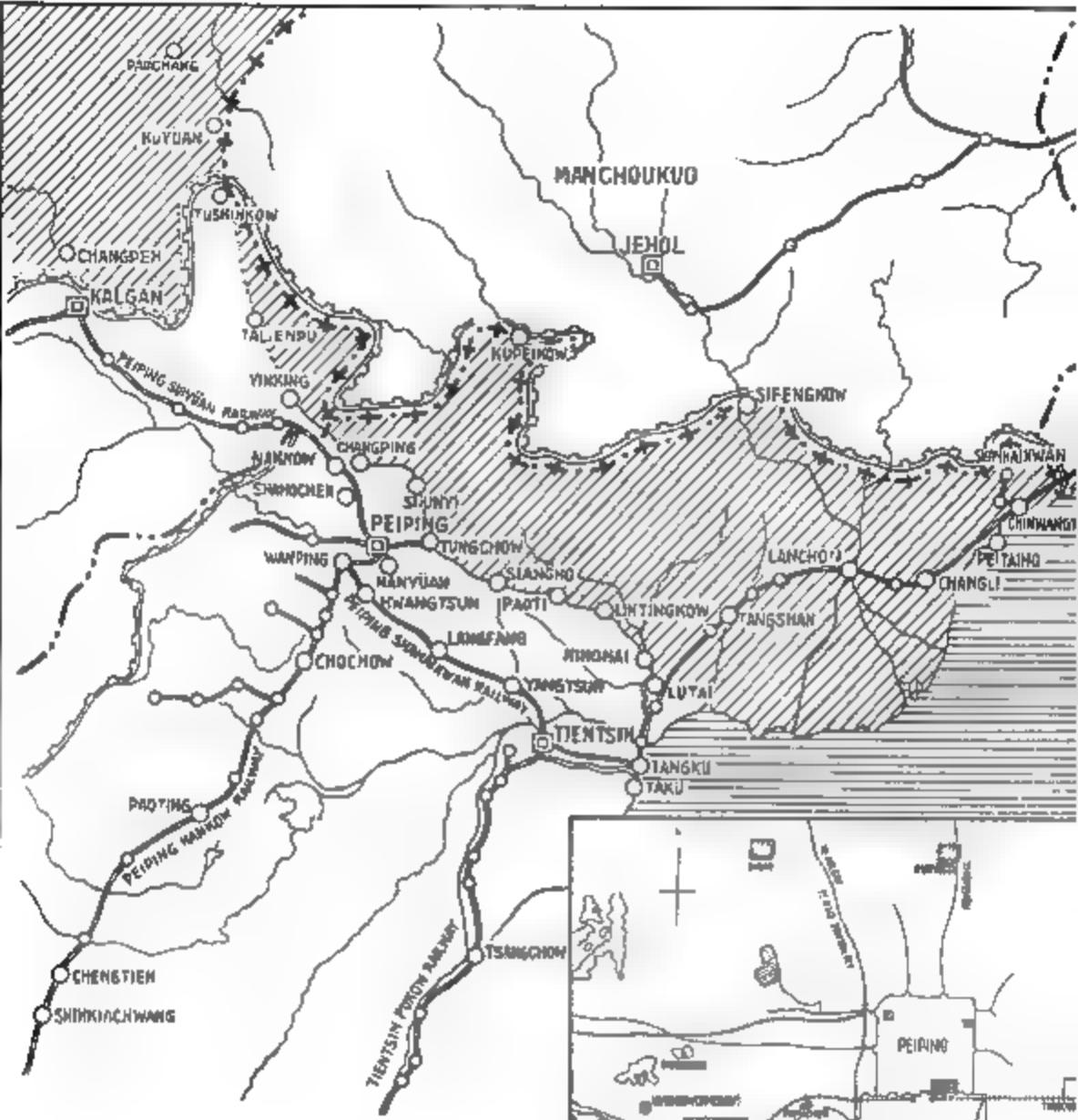
⁵ On the night of Sept. 21, 1936, Tomonatsu Tamunato, a first-class seaman, Yoshitane Yawata, a first-class seaman, Yoshimi Iwaiwa, a second-class seaman—all of the crew of the Japanese warship, *Izumo*, were shot while taking a walk in the International Settlement in Shanghai. Tamunato died instantly and his two companions were seriously wounded.

⁶ On Nov. 11, 1936, Yasui Takase of the crew of the *Kasagi Maru*, a Japanese merchant vessel, was shot to death.

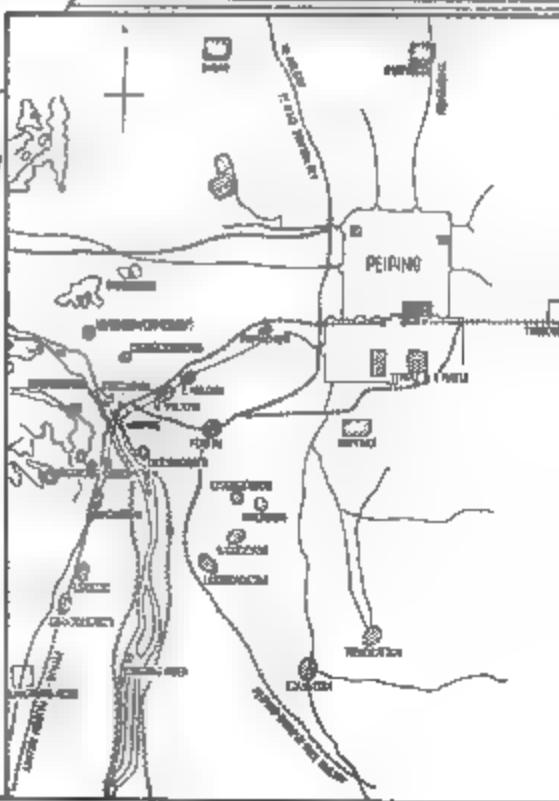
towards China are none other than the establishment of peace in East Asia based upon the co-existence and common prosperity of the two nations, has been reiterated in the clearest possible terms on every relevant occasion. It is idle, therefore, to dwell upon these policies again. Let us however, recall one instance of Japan's consistent endeavours along these lines. When her foreign policies were being directed by Baron Shidehara, Japan appreciated, ahead of other Powers, the necessity for development of China's nationalism, and cooperated with her in endeavours to make herself a united and organized nation. The fact that Japan took the lead in recognizing tariff autonomy in China was a manifestation of her idealism in foreign policies. In what way did her neighbour respond to this action of friendship? China's response took the forms of the Nanking and Tsinan incidents and of the demands for the restoration of Port Arthur and Dalny and the dissolution of Japanese rights and interests in Manchuria. This state of affairs gave rise to the Manchurian incident.

It is the irrevocable determination of the Japanese people to promote the healthy growth and safeguard the independence of Manchoukuo, which has been created by the upheaval. Against any activities, therefore, jeopardizing the existence of the new State, the Japanese people are determined to rise in one body, at all costs. If the Nationalist-Communist United Front against Japan constitutes such forces against the new State—as it undoubtedly does—it is a matter of vital necessity for Japan to demand the establishment of a sort of buffer zone in North China, with a view to neutralizing and averting those disastrous forces. Recognition of Manchoukuo by China will satisfy Japan most. But if this step is not immediately possible, China should give tacit consent to the existence of the new State, and enforce in all sincerity strict measures against anti-Japanese and anti-Manchoukuoan activities—a policy which will be eminently satisfactory to Japan. Since, however, the Nanking Government has neither power nor will to carry out any of these policies, Japan can act in no other way than to establish and maintain a buffer zone in North China, resorting to force if need be.

What Japan demands is none other than this buffer zone. Accordingly, she has no intentions whatsoever toward territorial aggression. Not has she any hope for the emergence of an independent state such as Manchoukuo. What the whole of the Japanese nation desires is the realization, purely and simply, of a state of close cooperation for peace and prosperity in North China between the three countries, Japan, Manchoukuo and China.



SHOWS THE DEMILITARIZED ZONES UNDER THE TANGKU TRUCE AND SUBSEQUENT AGREEMENTS



THE SITUATION IN NORTH CHINA

—July 7th to August 1st—

PRESS SECTION, DEPARTMENT OF WAR

SCORES of shots were suddenly fired by Chinese troops at Wanping-hsien about 11:40 o'clock, on the night of July 7th. The small detachment belonging to the Japanese Garrison in China, which was engaged in exercises north of Marco Polo Bridge, immediately stopped their exercises, and concentrated to stand by. The alarming situation was promptly reported to superior officers.

The Japanese troops at Peiping, attaching importance to the incident, immediately sent Lieutenant-Colonel Morita to the spot, accompanied by two Chinese officials. Prior to this, the commanding officer of the Japanese troops at Fengtai protested to the commander of the Chinese troops at Wanping-hsien against the outbreak and demanded the withdrawal of the Chinese troops. While negotiations were still going on, the Chinese troops near Lungwangmiao, and on the heights near Changhsintien on the western side of the Yungting river, wantonly opened fire with rifles and trench-mortars upon the Japanese troops which were concentrating. This firing began at a little past 4 o'clock on the morning of July 8th; it forced the Japanese to return the fire and to occupy Lungwangmiao. The Japanese troops suffered over a dozen killed and wounded in the engagement.

The orders, "Cease Fire," were issued at 9:30 a.m. in accordance with the earnest request of the Chinese military authorities. The Japanese troops were concentrated to stand by and watch the movements of the Chinese troops.

Meanwhile all the gates of Peiping were closed, at 12:20 p.m., on July 8th, suspending communication between the walled city and the outside world. At 8 p.m., the same day, martial law was proclaimed in Peiping with General Shao Wen-kai, Commander of the Gendarmerie, appointed as commander of the martial law forces. Part of the Japanese infantry remained in Peiping for the protection of Japanese residents. The situation in Peiping was comparatively quiet on that day.

NEGOTIATIONS AT WANPING FAIL

Colonel Morita arrived on the spot on the morning of July 8th, and immediately proceeded to Wanping to negotiate with the

Chinese military authorities, who, however, refused to accept the Japanese demands, contending, on the contrary, that both the Japanese and Chinese troops should withdraw to their respective, original positions.

At 2 o'clock on the following morning, July 9th, the Chinese military authorities pledged themselves to withdraw their troops at Wanping to the right bank of the Yungting river by 3 o'clock that morning. Actually, however, the Chinese troops there failed to withdraw even by 6 o'clock, and, on the contrary, increased their numerical strength and from time to time fired upon the Japanese troops which were watching their movements. The Japanese were compelled to accept the challenge, and silenced their fire.

The Japanese military authorities immediately lodged a vigorous protest with the Chinese military authorities against the failure of the Chinese troops to observe the agreement. As the result of this protest, at 7 o'clock on the morning of July 9th, the Chinese sent their Brigade Commander with one staff-officer, to press the Chinese troops to withdraw promptly.

The Chinese troops for a time seemed to be fulfilling the Japanese demands, but in reality they started war preparations by concentrating troops on the western bank of the Yungting river and by replenishing their stocks of arms and ammunition.

Beginning in the early morning of July 10th, these troops fired illegally from time to time upon the Japanese troops near Wanping-hsien.

The Chinese troops, which marched south from the direction of Yamenkou the evening of July 10th, seized Lungwangmiao in defiance of the agreement concluded with the Japanese at 2 a.m. on July 9th, and launched an attack on the Japanese troops near Wanping-hsien. Thereupon the Japanese troops started a counter-attack against the Chinese and occupied Lungwangmiao about 9 p.m., dealing a heavy blow on them. Japanese casualties in the engagement included 6 killed and 10 wounded.

The Japanese troops withdrew from Lungwangmiao early in the morning of July 11th, with their main body massed near Wulitien about 2 kilometres northeast of Wanping. About that time, some 800 Chinese troops armed with guns took positions at Papaoshan and the district south of it, while the Chinese troops at Changhsintien and Wanping were reinforced with defence works erected on the western bank of the Yungting river and on the heights near Changhsintien.

Meanwhile, the Chief of Staff of the Japanese Troops in China conducted vigorous negotiations with the leaders of the Hopei and

Chahar Political Council for an amicable settlement of the incident; but with the attitude of the Chinese leaders stiffening, there was no way of breaking the deadlock, and negotiations were threatened with rupture. Consequently, on the afternoon of July 11th, the Japanese Chief of Staff left Peiping for the Nanyuan aerodrome.

CHINESE ATTITUDE CHANGES MOMENTARILY

At this point the Hopei and Chahar Political Council apparently saw the firm determination of the Japanese Government and people, and suddenly changed its inexorable attitude. The Council, at 8 o'clock the same evening, handed Colonel Matsui, Chief of the Japanese Military Mission in Peiping, a note signed by Generals Chang Tzu-chung and Chang Yun-yung, the representatives of the 29th Army, accepting the Japanese demands, which included punishment of the Chinese officers responsible for the Wanping-hsien incident, prevention of the recurrence of such an untoward incident in the future, withdrawal of the Chinese troops from Wanping-hsien and Lungwangmiao whose peace and order was henceforth to be maintained by constabulary, and control of all anti-Japanese organizations.

Consequently, the Japanese troops, in pursuance of Japan's policy of non-aggravation, refrained from any positive action and maintained an attitude of watchful waiting. The Chinese troops, however, persisted in provocations against the Japanese, including wanton firing and illegal entry into the Wanping district. The Chinese troops at Papaoshan also continued to maintain their positions with their vanguard advancing steadily, while Chinese reinforcements, together with a large stock of munitions, arrived on the western bank of the Yungung river by the Peiping-Hankow railway.

Another serious provocation then occurred. About 11 o'clock on the morning of July 13th, a small Japanese unit was fired on with machine-guns by Chinese troops belonging to the 37th Division while passing Matsun, about 8 kilometres south of Peiping, by motor-lorry. The Japanese responded to the fire and repulsed the Chinese, but suffered several casualties.

On the other hand, the Chinese troops constructed triple lines of defence from Papaoshan to the Peiping-Hankow railway with their wing spread from Sipienmen to Yamenkou. The Chinese troops at Changhsintien and on both banks of the Yungting river apparently were reinforced by troops of General Wan Fu-lin, while a cavalry unit from the south reached Liangsiang, about 15 kilometres south-west of Wanping on the Peiping-Hankow railway.

The situation in Peiping had also become aggravated. Such was

the anti-Japanese sentiment among the local Chinese authorities and troops that cases of trespasses on the premises of Japanese nationals and molestations of Japanese women and children were frequently reported. Consequently such unrest prevailed among the Japanese colony in Peiping that many Japanese sought refuge in Tientsin or moved from the West City to the East City.

Such was the situation in North China. An examination of the attitude of the Nanking Government toward the incident is now in order.

ATTITUDE TAKEN BY NANKING GOVERNMENT

After the outbreak of the incident on July 7th, the Nanking Government not only ordered its air force to stand by, but urged the Hopei and Chahar Political Council to oppose Japan, promising to send four divisions of central troops to the Council's assistance. The Nanking Government manifested its determination to offer armed opposition to Japan on the one hand, and, on the other, launched systematic propaganda against Japan, by holding Japan responsible for the outbreak of the original incident which was entirely due to the provocations of Chinese troops, by refusing to recognize Japan's treaty rights to hold manoeuvres in North China, and by misrepresenting the manoeuvres of the Japanese Garrison troops as being preliminary moves toward the realization of Japanese territorial designs in North China.

JAPAN'S POLICY IS NON-AGGRAVATION

In sharp contrast to the attitude of Nanking, the Japanese Government consistently pursued a policy of non-aggravation and localization, and endeavoured strenuously to seek a settlement on the spot. In view, however, of the Chinese attitude, and particularly of the extreme menace to which the lives and property of Japanese nationals in China were subjected, the Cabinet decided on July 11th to send an expeditionary force to North China. The Cabinet held that this course was not only absolutely necessary for the protection of Japanese lives and property in North China, but also for the preservation of peace and order in East Asia, so that a solid guarantee be obtained against the recurrence on the part of the Chinese of illegal, provocative and insulting actions against Japan. Prince Konoe, Prime Minister, proceeded to the Imperial Villa at Hayama on the afternoon of July 11th to obtain Imperial sanction for the Cabinet's decision. It may be mentioned, however, that the Japanese Government had not abandoned its hope for peaceful negotiations designed to localize the incident, and was as

desirous as ever of reaching an amicable settlement with China. Needless to say, the Japanese Government is fully prepared to protect the vested rights and interests of foreign Powers in North China. This can be seen from the Government's statement issued on July 11th. The statement reads, in translation :

OFFICIAL STATEMENT ISSUED

The Japanese troops garrisoned in North China have always maintained a calm and patient attitude towards anti-Japanese outbursts in North China. But unfortunately, on the night of July 7th, an inevitable clash occurred when Japanese troops were wantonly fired upon by soldiers of the 29th Army, which had been co-operating with our forces in maintaining peace and order in that region. As a consequence the atmosphere in the Peiping and Tientsin districts grew so tense that even the lives and property of Japanese nationals were endangered. However, the Japanese authorities made strenuous endeavours to localize the affair and prevent it from becoming further aggravated, and succeeded in persuading the 29th Army authorities to agree to a peaceful settlement.

Yet, on the night of July 10th, the 29th Army, in violation of the agreement, suddenly fired upon the Japanese troops, causing considerable casualties. Besides, China has since pushed warlike preparations by increasing its forces on the front lines by ordering the Chinese troops at Siyuan to advance southward and also by ordering Central Government troops to the front. China has not only failed to manifest any sincerity to seek a peaceful solution, but has gone the length of flatly rejecting all Japan's offers for an amicable settlement at Peiping. This leaves no room for doubt that the present incident has been brought about as the result of well planned armed operations on the part of China against Japan.

There is no need of dwelling on the vital importance to Japan and Manchoukuo of the maintenance of peace and order in North China. What is most urgently needed is that the Chinese not only apologize for the recent lawless actions and manifestations of antagonism and opposition to Japan, but give an adequate guarantee against a recurrence of such outrages in the future.

An important decision has been reached by the Japanese Government at today's Cabinet meeting to take all necessary measures for dispatching military forces to North China.

But, desirous as ever of preserving the peace of East Asia, the Japanese Government has not yet abandoned its hope for peaceful negotiations effecting non-aggravation of the situation, and its hope for prompt reconsideration on the part of China which may bring about an amicable solution. As regards the safeguarding of the rights and interests of the Powers in China, the Japanese Government is, of course, prepared to give full consideration.

INCIDENTS RECUR

On July 14th, when a Japanese cavalry unit was passing a small village about 15 kilometres south of Peiping, toward the west, its

rearguard was fired on by Chinese troops. Although the main body was unmolested, one trooper was killed in the ensuing action.

Again, a Japanese unit was suddenly fired on by the Chinese Constabulary about 8 o'clock on the morning of July 16th when it was approaching Anping, about 34 kilometres southeast of Tung-chow, marching along the Tungchow highway from Tientsin. The Japanese immediately returned the fire and succeeded in disarming the constabulary.

Meanwhile Nanking was sending troops steadily northward. The total strength of troops sent by the Nanking Government to North China was estimated at 21 divisions, up to the 15th of July, and 24½ divisions by July 18th, which, combined with the 29th Army, created an army estimated at 30 divisions. The majority of these Central troops were being concentrated between Changteh and Chengchow while part of them were advancing as far north as Changhsintien.

The main body of the Chinese air force apparently was being concentrated at Chengchow, Loyang, Haichow and Suchow.

The reported concentration of Central troops in Hopei Province violates the military agreement made between Lieutenant-General Yoshijiro Umezawa and General Ho Ying-chin. The Japanese Garrison authorities in China ordered a scouting plane to Southern Hopei to reconnoitre the movements of the Chinese Central Government troops. This plane confirmed the reported concentration of Central troops in Southern Hopei. While flying between Shunteh and Yuanshuh in South Hopei, the Japanese scouting plane was fired on from a moving Chinese troop-train, on which, by returning the fire, the plane inflicted some loss.

At 1 o'clock on the afternoon of July 18th, General Sung Che-yuan and General Chang Tzu-chung of the 29th Army called on Lieutenant-General Kazuki, Commander of the Japanese Troops in China, at the Japanese Army Club at Tientsin, and expressed an apology for the incident, at the same time pledging themselves to prohibit the activities of the Communists, the Blue Shirt Society and other anti-Japanese organizations, and also to redouble their efforts in promoting friendly relations between Japan and China.

Despite the pledge of those two leaders of the 29th Army and the Hopei-Chahar Political Council, the Chinese troops at Wanping-hsien, at 6 p.m. on the following day, July 19th, illegally fired upon the Japanese patrol unit west of West-Wulitien and seriously wounded 2 Japanese company commander. Since the outbreak of the original incident on July 7th the Japanese Garrison authorities in North

China had pursued a policy of non-aggravation and localization, as announced by the Japanese Government, and had faithfully carried out the terms of local agreements reached with the Chinese military authorities, patiently anticipating observation of the agreement by the Chinese troops. The Japanese troops so far had not fired a single shot other than in strict response to the repeated wanton firing by the Chinese on them. But the illegal firing by the Chinese troops at Wanping on the Japanese at Wuliuca on July 19th, wounding a Japanese company commander, exhausted the patience of the Japanese Garrison authorities, who, therefore, communicated to the Hopei-Chahar Political Council that the Japanese troops would take free action on and after noon of July 20th, if the Chinese troops should repeat such an act of bad faith. A public statement to this effect was issued at the same time.

On the night of July 19th, representatives of the Japanese Army and the 29th Army met and concluded a detailed agreement designed to facilitate the execution of the local agreement signed on July 11th.

HOPEI-CHAHAR COUNCIL GIVES PLEDGE

The representatives of the Hopei-Chahar Political Council pledged themselves not only to punish those responsible for the North China incident and to apologize for the outbreak of the incident, but to take thoroughgoing measures for the control of the anti-Japanese activities of the Blue Shirt Society, the Communists and other anti-Japanese organizations which were ascertained to be behind the recent incident. The detailed agreement, which was based on a written note submitted by the representatives of the Hopei-Chahar Political Council provided, in order to facilitate the stipulated control of anti-Japanese activities in North China:

- (1) That official persons whose activities are injurious to the friendly relations between Japan and China be dismissed;
- (2) That the Communists be suppressed drastically;
- (3) That rigid control be exercised over all anti-Japanese organizations and agitations as well as over anti-Japanese education.

The Hopei-Chahar Political Council also communicated to the Japanese Garrison authorities that the 37th Division of the 29th Army which was mainly responsible for the clash with the Japanese troops was being transferred from the Peiping area to another district in order to preclude the possibility of recurrence of such an untoward incident.

In spite of the due conclusion of all these agreements, however, the Chinese troops at Papaoshan and near Changhsintien at 1 p.m. on

the following day, July 20th, opened bombardments on the Japanese troops. The Japanese troops at Fengtai were thus compelled to return the gunfire: a regular artillery duel ensued. The Japanese punitive bombardments soon silenced the Chinese gunfire, but the Chinese troops at Wanping and near Papaoshan resumed firing at 4 p.m. The Japanese artillery responded and silenced them in due course, but the Japanese side suffered 1 killed and 1 wounded. It is to be deplored that Japan's hope for localization and non-aggravation of the incident was thus shattered.

Yet still were the Japanese Garrison authorities hoping that the Chinese would fulfill the terms of the agreements of July 11th and 19th. Up to July 24th, the Chinese troops manifested no sincerity in observing the terms of the agreements, but on the contrary those in the Peiping area were reinforced, while the Chinese were not only strengthening their positions at Papaoshan but were constructing new positions at Tientsin, Kungtsun, Huangtsun and also at points north of Peiping.

The hostile attitude of the 29th Army seemed to be augmenting itself further until July 22nd when General Hsiung Pin, Vice-Chief of the General Staff of the Chinese Army, arrived in Peiping and the army showed a tendency to fulfill the agreements mentioned above.

The Japanese military authorities, therefore, sent their Vice-Chief of Staff to Peiping to press the Chinese for a prompt observance of the agreements, while the Japanese authorities were proceeding with preparations against the worst eventuality.

INCIDENT AT LANGFANG

The Japanese military telegraph wires between Peiping and Tientsin had been repeatedly cut by Chinese troops since the outbreak of the original incident on July 7th. The wires again were tampered with near Langfang station, 70 kilometres north-west of Tientsin, on July 25th, which fact was duly communicated to the Chinese authorities. To put the wires in order, the Japanese sent a squad of signal corps men, accompanied by a supporting infantry unit, from Tientsin. The Japanese detachment arrived at Langfang about 4:30 p.m., on July 25th, and immediately started necessary repair work on the telegraph wire, after going through the prescribed negotiations with the local Chinese military authorities.

At about 11.10 o'clock the same evening, while the Japanese were still engaged in repair work, Chinese troops in the Langfang station compounds suddenly opened rifle and light machine-gun fire upon the Japanese detachment. The Chinese troops in the barracks about

300 metres north of Langfang station also shelled the Japanese with trench-mortars. The Japanese were compelled to return the fire, and maintained their position against very heavy odds.

On receipt of this news, the Headquarters of the Japanese Troops rushed the Koito detachment to the spot. This detachment reached Langfang station about 6:30 a.m., the following morning, and, assisted by the Hirobe detachment which was on its way to Peiping, and also by an aerial attack, routed the Chinese troops by 8 a.m.

In the engagement, the Japanese casualties included 1 non-commissioned officer and 3 soldiers killed and 1 non-commissioned officer and 9 soldiers wounded. The Chinese troops which wantonly attacked the Japanese at Langfang belonged to the 226th regiment of the 38th Division under the command of General Chang Tzu-chung.

GENERAL KAZUKI SENDS STATEMENT

Thus, the withdrawal of the 37th Division, as stipulated in the agreements, had made no progress, and, with the situation further aggravated by the Langfang incident, Lieutenant-General Kazuki, at 3 p.m. on July 26th, sent the following communication to General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council and Commander of the 29th Army :

It is greatly to be regretted that a clash occurred between the Chinese and Japanese troops at Langfang on the night of July 25th through the wanton firing by your troops on a Japanese detachment sent to secure the communication line. The fresh outbreak is entirely due to lack of sincerity in fulfilling the terms of the agreements concluded with the Japanese military authorities and also to the failure in modifying the provocative attitude on the part of Chinese troops.

If your Army authorities still intend to prevent aggravation of the situation, you are hereby requested that the troops of the 37th Division near Wanping and Papaoshan be withdrawn by noon tomorrow to Chang-sintien on the Peiping Hankow Railway; that all troops of the said division immediately leave the walled city of Peiping, that these troops, together with those of the 37th Division stationed at Siyuan, a short distance northwest of Peiping, be moved to points west of the Yungting River by noon, July 28th, via the region north of the Peiping-Hankow railway line, and that these troops be then steadily transported in the direction of Paotungfu without interruption.

If these requests are not complied with the Japanese troops will be constrained to think that you have no sincerity in observing the agreements and, with regret, will have to take free action. Your army must bear all responsibility for the consequences in such an eventuality.

INCIDENT AT KWANGAN GATE

Later, the Hirobe detachment reached Fengtai whence it proceeded to Peiping. Prior, however, to its entry into the Japanese barracks within the walled city of Peiping, Colonel Matsui, Chief of the Japanese Military Mission in Peiping, negotiated with General Chin Teh-Chun, mayor of Peiping to permit the Hirobe detachment to enter Peiping by the Kwangan Gate.

General Chin gave permission, whereupon Major Sakurai, Japanese military adviser to the Hopei-Chahar Political Council, proceeded to the Kwangan Gate at about 6 p.m. as liaison officer. But the Major found the gate closed. After repeated negotiations the Chinese troops guarding the gate consented to open it at about 7:30 p.m., yet when two-thirds of the Japanese detachment were admitted, the Chinese troops suddenly closed the outer gate and attacked the Japanese now divided into two sections, one within the gate and the other without, using hand-grenades and machine-guns. Japanese casualties in the engagement totalled 19, including 12 privates killed, 1 major, 1 captain, 1 sergeant, 5 privates, 2 civilians in the military service and 2 journalists wounded. In addition, the interpreter who accompanied Major Sakurai was killed.

JAPAN'S PATIENCE IS EXHAUSTED

In view of the ever-increasing cases of bad faith and outrages of the Chinese troops, General Kazuki, at midnight on July 27th cancelled his note of the previous day addressed to General Sung Che-Yuan, and sent him a new one, informing him that the Japanese troops would take free action, because the Japanese troops could no longer bear the insincerity of the Chinese troops as manifested in their failure to observe the terms of the agreements as well as in their repeated provocative actions. The note made special reference to the Kwangan Gate incident, which was declared to be an insult upon the Japanese troops, because of its deceptive nature. The note also requested General Sung Che-yuan to withdraw all Chinese troops from Peiping immediately in order to prevent hostilities from spreading to Peiping.

Accordingly the Japanese troops early in the morning of July 28th started punitive operations against the Chinese troops in the Peiping and Tientsin area, and at the same time issued a statement to the effect that the Japanese had no intention of antagonizing the people in Hopei Province, nor had they any territorial designs on North China. The statement also declared that the Japanese troops would respect the vested rights and interests of foreign Powers and

protect the lives and property of foreign residents in Hopei Province.

GOVERNMENTAL STATEMENT OF JULY 27th

In view of the alarming situation in North China, the Chief Secretary to the Cabinet issued the following statement at 1:30 o'clock in the afternoon of July 27th:

Japan is gravely concerned over the maintenance of peace and order in North China. The consistent anti-Japanese policy pursued by the Chinese, however, has repeatedly menaced peace in North China and has finally led to the outbreak of the Wanping-hsien incident.

In accordance with its policy not to aggravate the North China situation and to seek a local settlement for the sake of peace in East Asia, Japan has been making every effort to dispose of the matter peacefully.

It has submitted very lenient local demands to the authorities of the Hopei-Chahar Political Council, merely including suspension of the stationing of Chinese troops near Wanping and on the left bank of the Yungting river, necessary guarantees for the future, punishment of those responsible for the incident and an apology on the part of the Hopei-Chahar Political Council. Although this Council recognized these demands on the night of July 11, it has failed to show sincerity in carrying them out.

On the other hand, the Japanese Government asked the Nanking Government on July 17th immediately to suspend provocative utterances and actions and not to obstruct the local settlement of the North China incident. Disregarding realities, however, the Nanking Government did not comply with the Japanese Government's requests.

On the contrary, it strengthened its preparations for war, thus increasing unrest. While Japan was making efforts for a peaceful solution of the situation with patience and self restraint, the Chinese on July 26th illegally fired on a Japanese detachment at Langfang, where it was engaged in repairing military telegraph wires. On the same evening, the Chinese resorted to unwarranted acts of violence by closing the wall gate to a Japanese detachment which was entering the walled city of Peiping, after reaching an understanding with the authorities of the Hopei-Chahar Political Council, to protect Japanese nationals, and by suddenly firing on the Japanese.

These two cases constitute an armed interference on the part of the Chinese troops in the primary duties of the Japanese Garrison in North China, which duties are to make secure the communication lines between Peiping and Tientsin and to protect Japanese nationals residing in the area.

Thus the Japanese army has been forced to take self-defensive measures necessary in the execution of its duties and also in securing full observance of the terms of the agreement concluded between Japan and the Hopei-Chahar Political Council. The aim of the Japanese Government is to eradicate the fundamental causes for the outbreak of untoward incidents such as the present one. Japan does not entertain enmity toward law-abiding Chinese people. Nor has it any territorial designs. It goes without saying that Japan will make every effort to give protection to the vested rights and interests in China of foreign Powers.

Although the situation has come to such a pass, Japan, whose mission is to secure peace in East Asia, desires that the Chinese reflect on their position, that the affected area be minimized, and that the incident be settled amicably as soon as possible.

JAPANESE OPERATIONS BEGIN

The Japanese troops started operations against the Chinese around Peiping early in the morning of July 28th. The Kawagishi, Kawabe and Kayashima columns, assisted by flying corps, attacked the Chinese 38th Division in the neighbourhood of Nanyuan from three directions, south, east and west. Being unable to withstand the concerted vigorous attacks by land and air, the Chinese troops started fleeing northward about 8 o'clock the same morning. The main body of the Kawabe column dashed to Matsun half way between Nanyuan and Peiping to cut off the retreat of the Chinese troops while part of the column continued attacks on the Chinese barracks at Nanyuan. About 11 o'clock the main body reached a point northwest of Nanyuan and cut off the retreat of the Chinese, in conjunction with the Kayashima detachment which reached a point northeast of Nanyuan. The Kawagishi column cleared the remnants of the 38th Division from Nanyuan which the Japanese troops completely occupied at 3 o'clock, the same afternoon. In the engagement, the Japanese dealt the 4 battalions of Chinese troops in and near Nanyuan a crushing blow with the result that only some one hundred of them succeeded in fleeing to Peiping.

In the region north of Peiping, the Sakai column dislodged the Chinese troops from Shahochen, about 20 kilometres north of Peiping, around 11:30 o'clock the same morning, and immediately advanced on Siyuan along a terrible road. The column reached a point north of Wanshushan toward evening, while the Suzuki column attacked the Chinese at Chungochen, about 9 kilometres north of Peiping at 11 o'clock in the morning and occupied it at about 3 o'clock in the afternoon. This column then continued its southward advance.

The flying corps joined the operations. Several military planes hopped off from their base in a severe thunderstorm and dropped bombs on the Chinese barracks at Siyuan at 5:30 and at Nanyuan at 6:20 o'clock, inflicting heavy losses to the Chinese. Later, the flying corps supported the Japanese infantry and artillery in their operations against the Chinese troops.

No untoward incident occurred to the Japanese troops and civilian residents in Peiping, but the Legation Quarter was surrounded by several companies of the 29th Army, while "plainclothes" men infested the Quarter, spying on the movements of the Japanese

troops. Also, since the morning of July 28th, the Legation Quarter had been isolated, with telegraphic and telephonic communications cut off.

DESTROYER IS FIRED ON

A Japanese destroyer sent to Tangku to make contact with the Japanese transports coming from home ports, was suddenly fired on with trench-mortars by the Chinese at Taku, at 3 o'clock on the afternoon of July 28th, while the destroyer was sailing off Taku. The Japanese ship responded to the fire.

ACTION AT TIENSIN

At midnight on July 28th, the Japanese aerodrome near Tientsin was attacked by several detachments of the Chinese Constabulary, but the Japanese held their position till early the next morning when the attackers were repulsed by aerial bombing. The Chinese troops and constabulary staged night raids at about 1 o'clock the next morning, the Headquarters of the Japanese Troops in Chin2, the Okura farm, the East and Central stations, and the Japanese provisions depot in Tientsin. However, they were repulsed by the Japanese after three and a half hours of fighting. The attackers comprised the 26th Independent Brigade of the 38th Division and part of the Chinese Constabulary.

The Headquarters of the Japanese troops issued a statement on the afternoon of July 29th, declaring that it had become urgently necessary and imperative for the Japanese troops in self-defence to bombard the bases of the Chinese troops and constabulary in order to preserve peace and order in Tientsin and to protect the Japanese residents there. At 3:30 o'clock in the afternoon of the day following the above-mentioned statement, the Japanese artillery and flying corps started bombardments on the bases of operations established by the Chinese at the offices of the Peiping-Shanhaikwan Railway Administration and the Tientsin-Pukow Railway Administration, the Headquarters of the Chinese Constabulary, the Headquarters of the Chinese Garrison, the Chinese Municipal Office and other places. The Japanese succeeded in dislodging the Chinese troops and constabulary from their bases and in clearing the Tientsin area of them.

CLEAN-UP EFFECTED IN TIENSIN-PEIPING AREA

In the Peiping area, the Japanese troops pressed hard upon the Chinese. The main body of the Sakai column occupied Huangtsun while part of the detachment occupied Yamenkou by the evening of July 29th. The Suzuki column, after defeating the Chinese at

Siyuan reached a point west of Peiping and the Kawabe column completely occupied Marco Polo Bridge and Wanping, shortly after 6 o'clock in the afternoon.

The Chinese troops north-west of Peiping were entirely driven beyond the right bank of the Yungtung river by nightfall on July 29th.

Thus, the Japanese troops, within two days after the start of operations, succeeded in dealing a crushing blow to the 29th Army. The following day, July 30th, the Japanese troops began a clean-up campaign against the remnants of the Chinese troops in the Peiping and Tientsin areas. The Kawabe column, at about 3 o'clock on the afternoon of July 30th, advanced to the heights at Changhsintien on the right bank of the Yungtung river, from which the Chinese troops retreated far south. Hence, there was not a single Chinese soldier to be seen north of Liangsiang. On the other hand, the Suzuki column on August 1st occupied Peiyuan and disarmed the 39th Independent Brigade, about 3,000 strong.

In the Tientsin area, Japanese troops repulsed the repeated attacks of the Chinese with the consequence that the situation at Tientsin had apparently returned to normal by the morning of July 30th. But a large number of Chinese established their bases at the Nankai University, the Constabulary Headquarters and other public establishments, from which vantage points they bombarded the Japanese Settlement. Accordingly, as mentioned elsewhere, the Japanese artillery and flying corps were compelled to return the bombardments, and Japanese troops succeeded in mopping up the remnants of the Chinese by July 31st.

In the Tangku area, the Japanese troops, which were repeatedly fired on by Chinese, started a counter-attack in cooperation with a Japanese naval force and occupied Taku on July 30th. The Mizo-guchi detachment captured a Chinese gunboat in the engagement.

THE TUNGCHOW MASSACRE

Tungchow is the seat of the Anti-Communistic Autonomous Administration of East Hopei. Japanese residents at Tungchow have usually numbered about 300, guarded by a unit of Japanese troops. After the outbreak of the original incident, however, the number of Japanese residents increased to about 380, while the Japanese Garrison men were reduced to only 100, the rest being engaged in operations elsewhere. Early on the morning of July 29th, Chinese troops and constabulary, about 3,000 strong, started an attack, in which a cadre of the constabulary, the one most trusted by Mr. Yin Ju-keng, chief executive of the East Hopei Administration, took a most active

part. The cadre, instigated by the communistic elements of the 29th Army, and blindly believing in the rumoured victory of the Chinese troops, rose up in conjunction with the remnants of the 1st and 2nd Constabulary corps.

A little after 3 o'clock in the morning of July 29th, the Japanese troops in Tungchow, were attacked by the constabulary, conservatively estimated at 2,000 in number, but succeeded in holding their barracks and magazines stubbornly. By carrying out sorties from time to time, the Japanese finally drove away the attackers who were invading the compounds of the barracks.

About 10 o'clock, the same morning, the Chinese Constabulary and troops took up positions on the embankments round the Japanese barracks and intensified their gun and rifle fire. As time went on their fire took more and more effect with the result that many casualties occurred among the Japanese troops and part of the barracks was destroyed. With both telegraph and wireless apparatus put out of order the Japanese barracks were completely isolated.

Nothing daunted, however, all the inmates of the Japanese barracks, both regulars and employees, bravely fought against the overwhelmingly large numbers of the enemy.

Shortly after noon, an enemy shell hit the cases of gasoline heaped in the yard of the barracks, causing a fire. Additional shells hit motor-lorries loaded with ammunition, destroying 17 of them. Explosions of the ammunition lasted about three hours.

At about three o'clock several Japanese military planes appeared over Tungchow and dropped bombs on the enemy, causing them to abate their attack for a time. With nightfall, however, the Chinese increased their fire from the embankments round the Japanese barracks, which the Japanese Garrison succeeded in holding, by bitter resistance.

On receipt of information that the Japanese troops at Tungchow were being attacked, the Headquarters of the Japanese Garrison in China ordered military planes to reconnoitre the situation at Tungchow and drop bombs on the enemy. At the same time the main body of the Kayashima detachment was rushed to the spot to reinforce the Japanese troops.

News of coming reinforcements reached the Japanese troops at Tungchow at about 2:30 o'clock in the morning of July 30th, stiffening their morale. At about 11 o'clock, the same morning, Japanese military planes again appeared over Tungchow and bombarded the enemy, who, then, began to retreat from round the Japanese barracks in a northerly direction. The Kayashima detachment reached Tungchow at 4:20 o'clock on the afternoon of July

30th and immediately started to mop up the remnants of the Chinese troops and constabulary in the town. Thus detachment has since been maintaining peace and order in Tungchow.

The offices of the Japanese Military Mission were also attacked by the enemy at about 3 o'clock in the morning of July 29th Lieutenant Colonel Hosoki, Chief of the Mission, was killed by the Chinese just in front of the office of the East Hopei Administration when he endeavoured to enter the building in a valiant effort to pacify the constabulary. All other members of the Mission, under the command of Major Kai, fought courageously against overwhelming odds, and most of them were killed. The casualties of the Japanese troops included 18 killed and 19 wounded while the Japanese Military Mission suffered 9 killed, including Lieutenant-Colonel Hosoki.

CRUELTIES ARE BEYOND COMPREHENSION

In this connection, mention must be made of the cruelties committed by the Chinese against the Japanese residents in Tungchow—cruelties which are not only beyond the imagination of civilized peoples, but are revolting to their sense of morality and humanity. Of the 380 Japanese residents in Tungchow, no more than 120 were rescued by the Japanese Garrison, while most of them were wounded by the Chinese troops. Later investigation revealed that the Chinese had planned a wholesale slaughter of Japanese residents including women and children, and systematically attacked the houses occupied by Japanese.

Most of the Japanese women massacred were first kidnapped by Chinese and subjected to unmentionable dishonour for fully 24 hours by them before being butchered. The Chinese pierced wires through the nostrils and lips of some of the women they slaughtered, and, binding the hands and feet of others, dragged them along to the East Gate of Tungchow and threw them into the pond. Some of these women victims were also found murdered after they had been subjected to shocking atrocities such as acid smeared over their faces. Space forbids further enumeration of such brutalities. Suffice it to say that not only were the Japanese homes looted, but the bodies of the massacred Japanese nationals were totally stripped by the Chinese troops and constabulary.

SINO-JAPANESE LOSSES SINCE THE OUTBREAK OF THE INCIDENT

Since July 7th when the original incident broke out, up to noon, August 3rd the casualty list of the Japanese Troops in China included

Casualties	Officers	Non-Commissioned Officers and privates	Total
Killed.	24	340	364
Wounded ..	39	810	869
Total	83	1,150	1,233

Chinese losses are not clear, but information from the Headquarters of the Japanese troops gives the following figures which evidently do not cover all Chinese losses and casualties

Bodies found	at Nanyuan, & Hsing-kung	2,500 (38th & 132nd Divisions)
	at points west of Peiping	150 (Constabulary at Tung-chow)
Troops disarmed	at Peiyuan	3,200 (the Independent 39th Brigade)
	at points west of Peiping	4,000 (the 132nd Division)
	at Tungchow	1,000 (Constabulary)
Prisoners captured	at Nanyuan & Hsing-kung	100 (38th & 132nd Division)
Arms captured	4 mountain-guns 4 field-guns 3 heavy trench-mortars 8 light trench-mortars over 200 machine guns of Czechoslovakian make about 5,000 rifles over 100 pistols and 1,300 Chinese swords	

ATTITUDE OF NANKING GOVERNMENT; MOVEMENTS OF CENTRAL TROOPS

General Chiang Kai-shek issued a statement to the Chinese press, on the evening of July 29th holding himself responsible for the debacle of the 29th Army in the Peiping and Tientsin area. The statement reads, in substance:

"With the aggravation of the North China situation, I ordered Central troops to advance north, but General Sung Che-yuan requested for suspension of troop movements. This rendered organized resistance against the Japanese troops impossible. The Japanese Government apparently instructed Mr. Kawagoe, Ambassador to China, to proceed to Nanking for negotiations, but I will never enter into negotiation with Japan unless my minimum four-point demands, announced on July 19th, are accepted by that country. Now that the issue has become national in

nature, both Government and people are urged to unite solidly in winning the conflict with Japan.

Since the issuing of this statement, Chinese Central troops have steadily poured into North China both by the Peiping-Hankow and the Tientsin-Pukow lines.

THE STATEMENT OF THE JAPANESE GOVERNMENT

DATED AUGUST 15TH, 1937

The Imperial Japanese Government, in its desire to secure permanent peace in East Asia, has always striven to promote friendship and cooperation between Japan and China. However, an atmosphere of hostility towards Japan has been created throughout China by anti-Japanese agitations used as an instrument by the Nanking Government to arouse public opinion and to enhance its own political power. The Chinese, over-confident of their national strength, contemptuous of our power, and also in league with the Communists, have assumed toward Japan an increasingly arrogant and insulting attitude. Herein lies the cause of all untoward events which have arisen repeatedly during recent years.

The present Incident is but the inevitable outcome of this situation. Dynamite had been ignited, the inevitable explosion merely happened to occur on the banks of the Yunting. The terrible Tungchow massacre is also traceable to the same cause. In South and Central China, Japanese lives and property have been so jeopardized that our people have been compelled to evacuate, abandoning everything they had acquired after years of incessant toil.

As has been frequently declared since the outbreak of the present Incident, the Japanese Government, exercising utmost patience and restraint, has steadfastly pursued a policy of non aggravation of the situation, and has endeavoured to reach a settlement locally and in a peaceful manner. In the Peiping and Tientsin area, our Garrison, in the face of countless Chinese provocations and lawless actions, has done no more than was absolutely necessary to secure lines of communications and to protect Japanese nationals there.

On the other hand, our Government advised the Nanking Government to put an immediate stop to all provocative acts, and to refrain from obstructing the negotiations being conducted on the spot. The Nanking Government not only refused to follow our counsel, but proceeded toward the completion of war-like preparations against us. In flagrant violation of solemn military agreements, the Chinese moved vast armies northward menacing our Garrison, and concentrated troops in and around Shanghai. Their provocative attitude became more clearly defined at Hankow. Finally at Shanghai, the Chinese opened fire upon our naval headquarters and bombed our warships from the air.

In this manner have the Chinese insulted our Government, committed acts of unpardonable atrocity against our country, and gravely endangered the lives and property of our nationals throughout China. They have finally exhausted the patience of the Japanese Government. It has thus become imperative to take drastic measures in order to chastise the lawless Chinese troops and to impress upon the Nanking Government the necessity for reconsideration of its attitude toward Japan.

THE STATEMENT OF THE JAPANESE GOVERNMENT 43

That matters should have come to this pass is deeply deplored by the Japanese Government which earnestly desires the maintenance of peace in the Orient and sincerely hopes for the attainment of common prosperity and public welfare in Japan and China. The aim of the Japanese Government is none other than the realization of Sino-Japanese cooperation. Its only desire is to eradicate the anti-foreign and anti-Japanese movement rampant in China, and completely to eliminate the fundamental causes of unfortunate incidents such as the present one, with a view to bringing about truly harmonious collaboration among Japan, Manchoukuo and China.

Needless to say, the Japanese Government harbours no territorial designs. Its sole intention is to bring to reason the Nanking Government and the Kuomintang Party both of which have persistently incited anti-Japanese sentiments among the Chinese people. The Japanese bear no ill-will toward the innocent Chinese masses. In conclusion we hereby state that the Japanese Government will spare no efforts in safeguarding foreign rights and interests in China.

SOME LEGISLATIVE MEASURES INCIDENTAL TO THE NORTH CHINA INCIDENT

I. SPECIAL TAXATION

TO meet the requirements for funds incidental to the North China incident, a sum of about 10,000,000 yen was disbursed, in the first instance, out of the Budget reserves, and this was followed by the approval by the Diet for a further disbursement of 516,000,-000 yen. As, however, it is deemed ill-advised to effect such disbursements wholly by means of Government bond issues, it has been decided to cover a portion of the expenditure through the special taxation under Law No. 66, promulgated and coming into effect on August 11, 1937. This special taxation will be of a temporary nature, lasting for a period of one year, or till the end of March, 1938, and may be classified into the following five groups:

- (1) Special income tax calculated to net an increase in income tax revenue.
- (2) An additional levy on the temporary profits tax.
- (3) Special tax on dividends on company shares where the rates of such dividends are comparatively high.
- (4) Special tax on interest on Government bonds and corporation debentures where the rates of such interest are comparatively high.
- (5) Special tax on prescribed commodities.

Under the new law, increased assessment on incomes will be, in the case of companies, 10 per cent of the income tax for the business year ending within one year after the law comes into force, namely, August 11, 1938; and in the case of the interest on bank deposits and on Government bonds (excluding Imperial Government bonds) and corporation debentures, 5 per cent in respect to the interest falling due within the same period of one year. On individual income, the increase in taxation will be 10 per cent of the income tax for the second quarter and thereafter, which is equivalent to a rate of 7½ per cent as spread over the entire year. As regards the temporary profits tax, the increase under the new measure will be 15 per cent in the case of both companies and individuals, while the special tax on dividends, which is a new tax, will be levied on dividends on company shares, the payment of which becomes definitively fixed within one year after the new law comes into effect, at the rate of 10 per cent in respect of the portion exceeding the rate of interest of 7 per cent.

The special tax on interest on Government bonds and corporation debentures will be levied on such interest as falls due within one year after the coming into force of the present law. The rate of the tax will be a flat rate of 10 per cent in respect to the portion exceeding the rate of interest of 4 per cent p. a. in the case of Government bonds, and the rate of 4.5 per cent p. a. in the case of local government bonds and corporation debentures. The commodities on which the special tax will be levied fall into two groups. The first group comprises precious stones and semi-precious stones, and manufactures containing them; pearls and manufactures containing them; precious metals and manufactures containing them; articles making use of tortoise-shell and coral. In the second group are found cameras, photograph enlargers, cinematographs and their parts and accessories; photograph plates, films, photo printing paper, phonographs and parts, phonograph discs and musical instruments and their parts. The rate of tax is 20 per cent in both groups, the difference being in the time at which the levy is made, which will be in the case of the first group, when the goods change hands from retailers to consumers, and, in the case of the second group, when manufacturers make delivery of goods. As for imported articles, the levy will be made when goods are taken in delivery from where they have been kept in bond. The special tax on commodities will be levied when goods are sold or transferred from the factories or taken in delivery from the bonded place, after the coming into force of the law up to the end of March, 1938. The following table gives the estimated yield of the various taxes under the new law.

(in thousands of yen)

Taxes	1937-38	1938-39	Total
Special tax on income	27,580	12,457	40,037
Special tax on temporary profits	5,632	4,949	10,581
Special tax on interest & dividends	23,196	15,464	38,660
Special tax on interest on Gov't bonds & company debentures	1,361	907	2,268
Special tax on commodities.....	8,777	1,220	9,998
Grand total	66,548	33,999	100,547

It may be noted that the new taxation will be applied also in Chosen, Taiwan, Karafuto and the Kwantung Leased Territory, and the proceeds therefrom are estimated to reach, in round figures, 2,800,000 yen for 1937-38, and 1,500,000 yen for 1938-39, giving a total of 4,400,000 yen.

II. ANTI-PROFITEERING REGULATIONS

(Ordinance No. 10 of the Ministry of Commerce and Industry, Promulgated and Put in Force, on August 3, 1937; being an

Amendment of Ordinance No. 20 of the Ministry of Agriculture and Commerce of 1917.)

In view of the occurrence of the North China incident, this Ordinance has been promulgated in order to effect the prohibition of all profiteering that may arise.

Acts coming under the control of this Ordinance are the cornering and withholding from the market of articles of trade for the purpose of gaining excessive profits, and the selling of goods at exorbitant prices. Although the question as to just where profiteering begins is to be determined according to the varying circumstances governing different commodities, nevertheless, the average earnings in previous years must supply an important basis for determining the point in question.

Commodities contemplated under this Ordinance are as follows :

Metals and ores, graphite, borax, asbestos and mica, machine tools and parts, automobiles and other vehicles and their parts, electric wire and poles, electrodes, materials for polishing and grinding tools, fire-proof bricks, glass, petroleum and its receptacles, coal, coke and charcoal, raw, cotton, wool, flax and staple-fibre, yarns (excluding raw silk) and fabrics, garments, papers, dye-stuffs, cosmetics, paints, medicine and other sanitary supplies, oils and fats, fertilizers and fodder, raw rubber and rubber manufactures, pulps, leathers and hides, and their manufactures, barley, wheat and wheat flour, sugar and building materials.

When deemed necessary, articles other than the above will be added to the list.

Whenever a person is found engaged in the act of profiteering he shall be warned not to continue in the act for a stated period, and, if necessary, certain conditions will be prescribed to govern transactions in the goods which formed the subject of the profiteering. While such warning is to be given by the Minister for Commerce and Industry or by the Prefectural Governors, the Minister for Agriculture and Forestry is likewise authorized to give warnings where it concerns dealings in charcoal, fertilizers, fodder, barley, wheat, and timbers forming building materials, by parties other than individuals or organizations engaged in commerce and industry—e.g., cooperative societies, etc. And when warnings have been administered, the competent authorities may require presentation of statements on matters occasioning such warnings. Furthermore, vendors are required plainly to indicate the prices of their wares by affixing a label showing the prices or by posting their price list in a conspicuous place in their stores, or other places of business according to the nature of the goods and the conditions of the trade. Any

person showing no evidence of reform after he has been served warnings shall be liable for punishment. The same shall hold true of any person disobeying the conditions prescribed to him. Persons shall be liable for punishment for disobeying the order for presentation of statements, or for making false statements; for non-compliance with the order to indicate selling prices or for making false indications. Where representatives of legal persons, or agents or employees or others engaged in the business of legal persons or of individual persons have committed acts of disobedience in connection with the business of the said legal or individual persons, such persons shall likewise be punished so that the Regulations may be rigorously enforced.

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